

45th India Fellowship Seminar

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Passive Selection in Life Insurance Renewals
Regulatory & Professional Evaluation in the Indian Context

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Case Study

- **Company Background**

1. Large Indian life insurer, strong track record: 25% CAGR new business premium over 20 years.
2. Recent slowdown: last 3-4 years weak growth; FY24-25 new business fell by 10%. VNB and margins also declined.

- **CMO's Proposal**

1. Add Accidental Death Benefit Rider (up to $1 \times$ sum assured) + Critical Illness Rider (up to 50% of sum assured).
2. Riders included in renewal premium notices via opt-out mechanism. A footnote is included in the renewal notice for explanation
3. Policyholders paying full premium is deemed acceptance; paying base premium only is deemed decline.

Case Study

- **Key Issues to Discuss**

1. Professional/ethical standards (policyholder fairness, transparency, mis-selling risk).
2. Regulatory compliance (IRDAI rules, opt-in vs opt-out).
3. Appointed Actuary's role: evaluate, advise Board, document concerns, safeguard policyholder's interest.
4. Professional & Legal consideration if implemented: Integrity, Public interest and confidentiality



Regulatory Considerations

Protection of Policyholders' Interest, Operations and Allied Matters of Insurers, 2024



Consent : Insurers shall ensure that explicit consent is obtained from the prospect/policyholder for deduction of amount towards premium payment from bank account.

Principal of Sale: The solicitation process should be transparent and has built-in practices to enable fair and equitable treatment of the prospect or the policyholder at all points of time

Prospectus: Where a standalone rider or add -on is offered to a base product, a reference to the rider or add-on shall be made in the prospectus of the base policy indicating the nature of benefits flowing thereupon.

Insurance Products Regulations, 2024



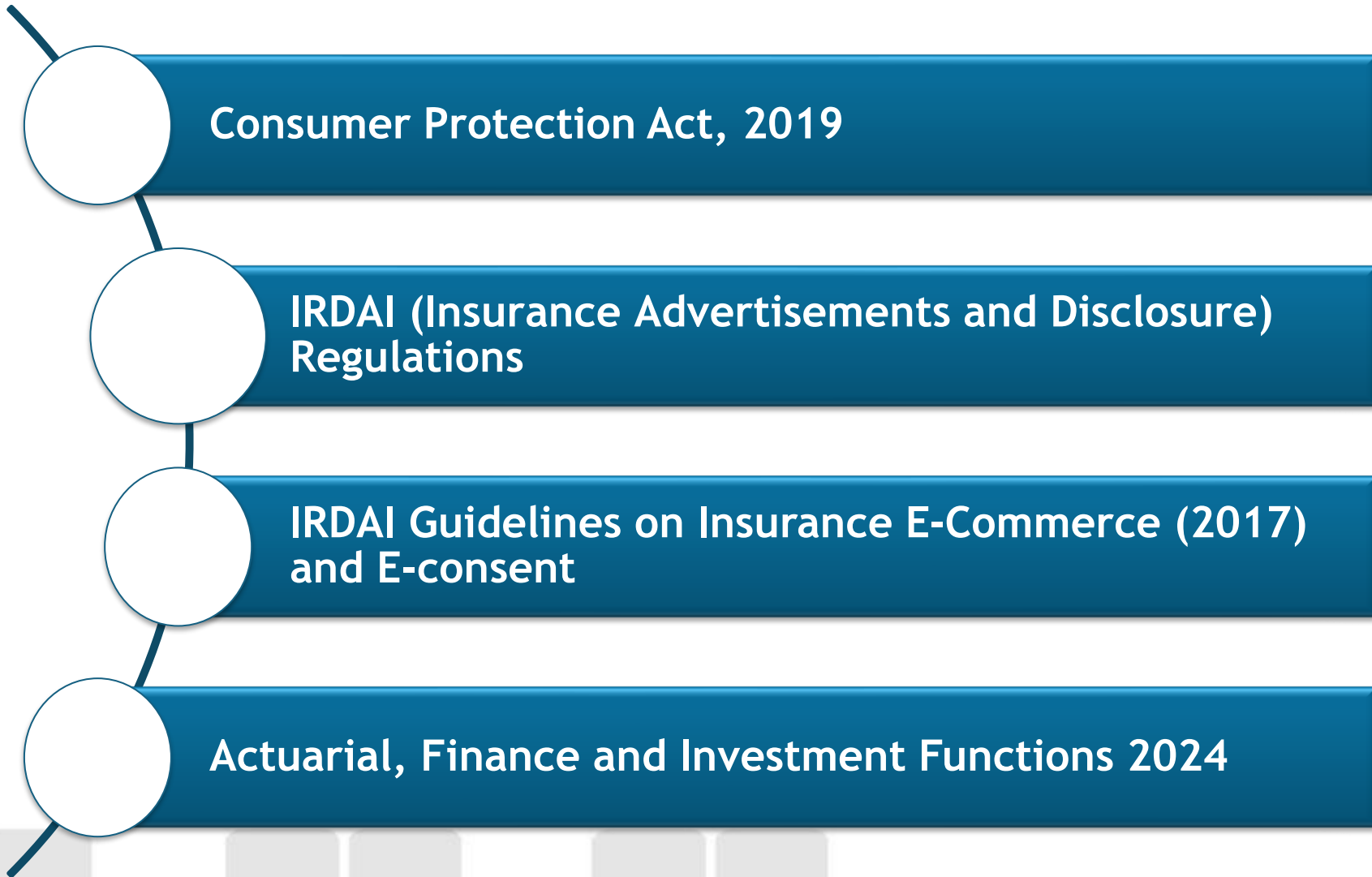
Rider Premium: the premium pertaining to health related or critical illness riders shall not exceed 100% of premium under the base product, the premiums under all other life insurance riders put together shall not exceed 30% of premiums under the base product.

Rider Sum Assured: Riders shall not exceed the sum assured under the base product except for Accidental death benefit riders where the rider sum assured is limited to a maximum of three times of base sum assured

Benefit Illustration:

Every life insurer shall provide customized benefit illustrations to proposers or prospective policyholders at the point of sale for a product along with the prospectus.

Other Regulatory consideration



Consumer Protection Act, 2019

IRDAI (Insurance Advertisements and Disclosure) Regulations

IRDAI Guidelines on Insurance E-Commerce (2017) and E-consent

Actuarial, Finance and Investment Functions 2024



Professional Considerations

IAI APS1 : Appointed Actuary and Life Insurance Business



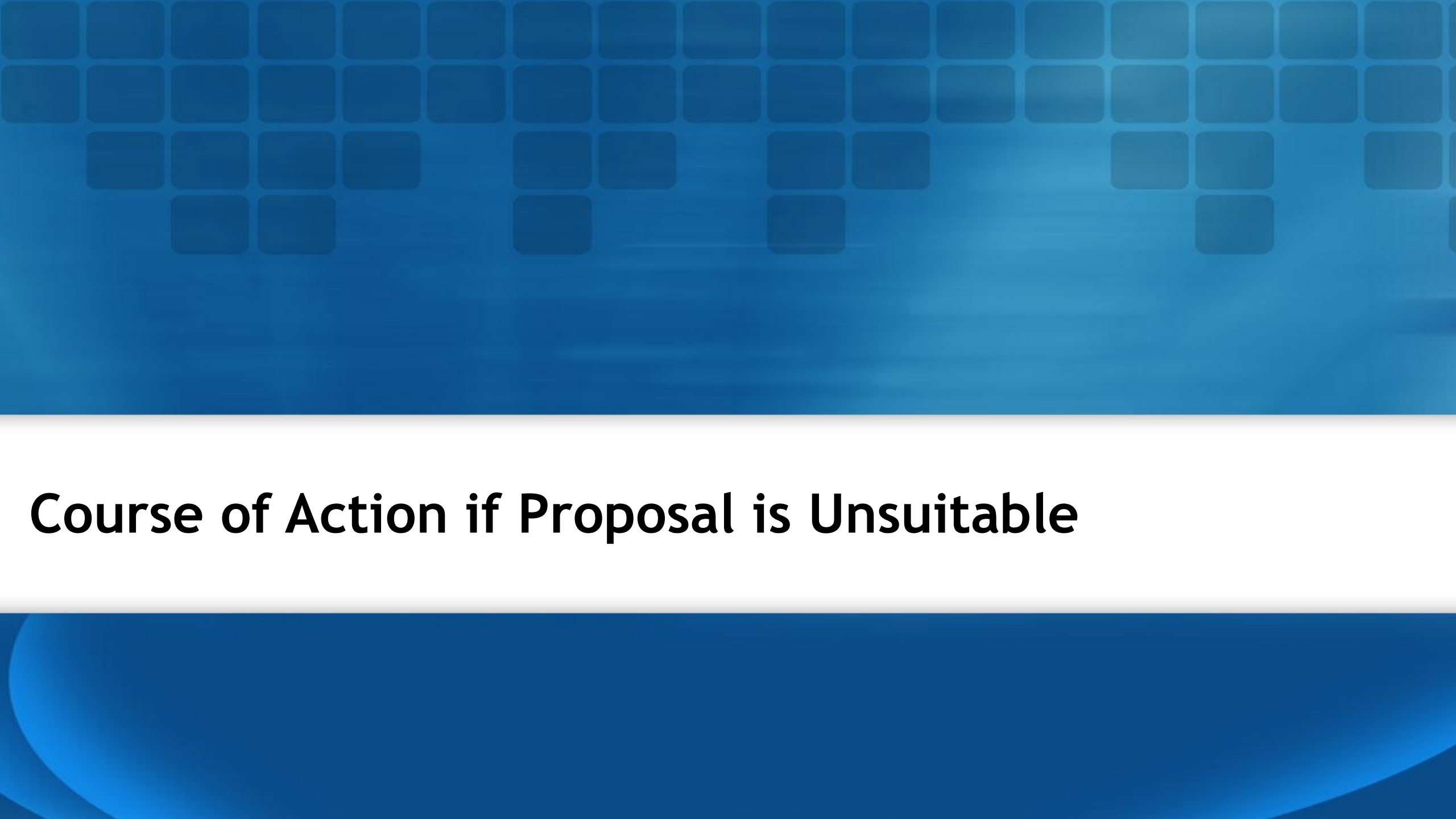
- **Policyholder Interest** : Communication must be clear and non-misleading
- **Conflict Resolution** : Commercial and Professional Interest

IAI Code of Professional Conduct

- **Professional Judgement** : Independent, free from external pressure
- **Take Appropriate Actions** : Acting in public interest with honesty and integrity. Escalating concerns and documenting advice
- **Communication** : Clear, fair and non-misleading

IRDAI Guidance Table: Policyholder Consent and Disclosure

Regulatory Area	IRDAI Position/Rule
Consent for new covers/riders	Must be explicit, positive, and in writing (physical/electronic/OTP); no passive or opt-out by default
Proposal and Acceptance	Must process proposals only upon completion/confirmation and clear documentation of affirmative consent
Disclosure (product/rider details, CIS)	Mandatory in proposal form, benefit illustration, CIS, policy document, and renewal notice
Opt-out and Withdrawal	Clear, fair, simple mechanism for declining riders and for policyholder to cancel during free-look
Charging of rider premiums	Only after explicit consent for the rider; separate premium indication; no auto-inclusion unless chosen
Regulatory action for opt-out models	Enforcement actions (warnings, sanctions, business restrictions) for passive consent or ambiguous opt-out



Course of Action if Proposal is Unsuitable

Key Regulatory and Professional Concerns

Passive Consent is Invalid and not aligned with policyholder interest

Inadequate Disclosure and Risk of policyholder Confusion

Transparency of Information and BI Requirement

Mis-selling and Unfair Trade Practice

The Ethical Crossroads

The Pressure

- Company struggling with growth
- Management seeking quick fixes

The Proposal

- Customers charged unless they notice
- Fine print as "consent"

Suitability of Proposal

Why "Passive Consent" Fails Ethical Standards

- Exploits Inattention
- Violates Informed Choice
- Creates Unfair Outcomes
- Undermines Trust

Suitability of Proposal

Evaluation of Company's Risk

- Anti-Selection due to lack of underwriting
- Reputational Risk
- Regulatory Risk
- Persistency Risk

Core Principles

Why does this matter ?

- Policyholder Protection comes first
- Integrity Over Convenience
- Transparency & Informed Consent is priority
- Long-term Trust vs Short-term Gain

Cautionary Tales from the Industry

Indian Tales

- IRDAI charges on insurer for violation of Policyholder protection Act.
- National Consumer Dispute Resolution Commission rulings

International Tales

- UK PPI Scandal
- Australian Banking Crisis

Course of Action

Speak Up

**Bridge the
Business
with ethics**

**Engage With
Various
Committee**

**Engage with
Board**

Key Action To Consider

Action 1: Speak Up with Moral Courage

- Articulate Ethical Issue to CMO
- Document Your Position
- Appeal to Shared Values and remind CMO of statutory duties as an actuary
- Maintain Respectful Tone

Key Action To Consider

Action 2: Bridge Business Goals with Ethics

- Incentivized Opt-In
- Personalized Outreach
- Transparent Digital Journey
- Product Innovation
- Win-Win Mindset

Key Action To Consider

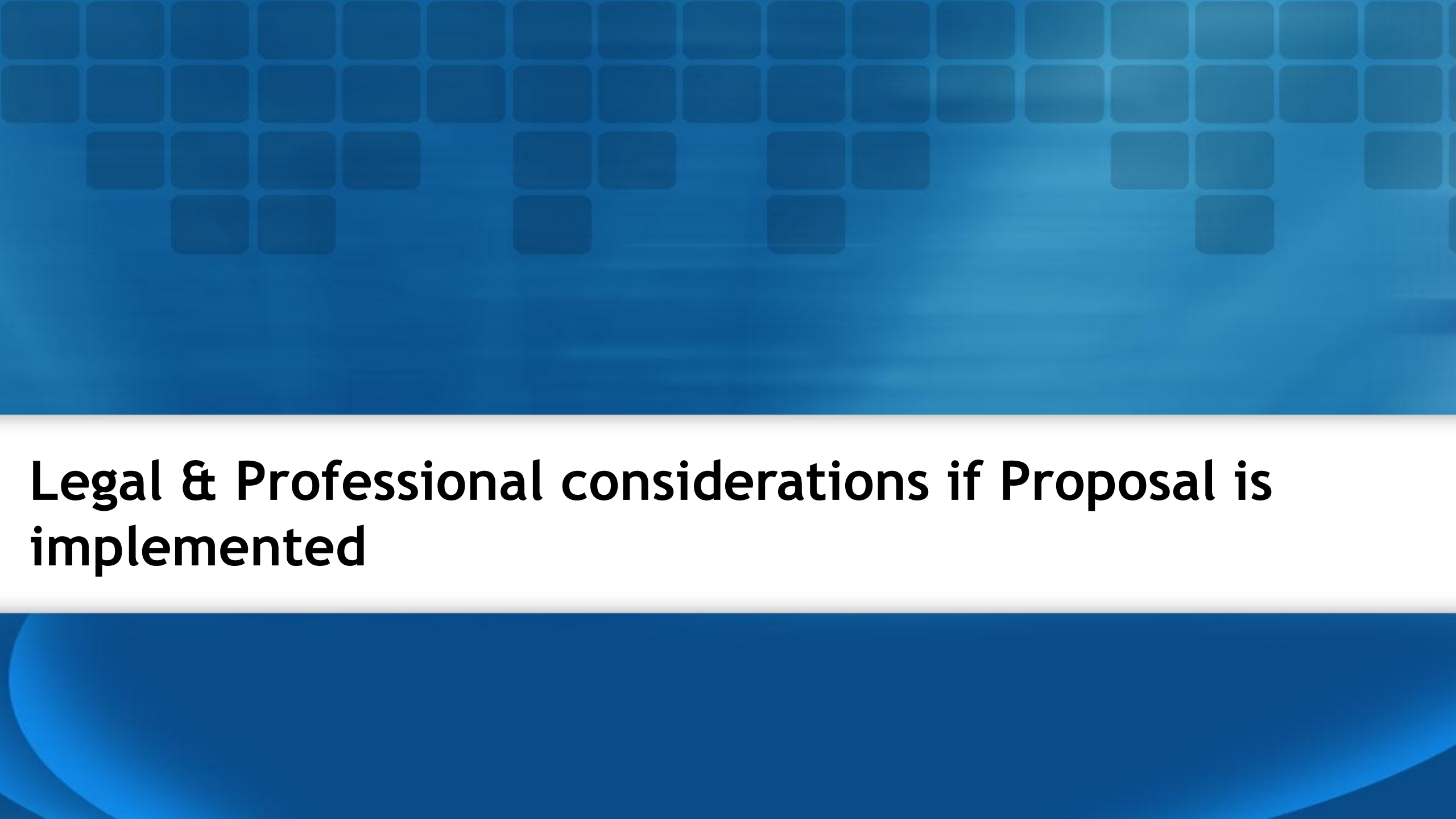
Action 3: Engage Different Committee

- Follow established protocol to formally communicate concerns.
- Engage with **PPGR&CM Committee**
- Engage with **Product Management Committee**
- Engage with **Risk Management Committee**

Key Action To Consider

Action 4: Engage with Board

- Ensure minutes of committee meeting are shared to Board.
- Appeal to the Fiduciary responsibility of CEO and Board as per Corporate governance Act.
- Ensure documentation of board discussion
- Past cautionary tales should be conveyed as warnings



Legal & Professional considerations if Proposal is implemented

Key Considerations - Professional & Legal



In case the proposal is implemented, following guidelines needs to be considered

- IAI's professional code of conduct
 - *Obligation to serve public interest*
 - *Act with honesty & Integrity*
- Master Circular on Corporate Governance 2024
- Actuaries Act 2006 - *Matter of confidentiality*
- Actuaries (Procedure for Inquiry of Professional and Other Misconduct) Rules, 2008

Key Action To Consider

Seek IAI and Legal Opinion

- Document all meeting minutes showing concern
- Seek Institute of Actuaries of India (IAI) review and advice (as stated in APS1).
- **External legal review**
- Ensure confidentiality agreement with external parties
- Prepare a **formal record** of the IAI opinion and legal opinion

Key Action To Consider

If Unresolved, Escalate to the IRDAI

- Make a **formal written submission** to the IRDAI.
- Documenting the concerns, reasons, and grounds for non-compliance with regulation and APS/GNS.
- This approach is reinforced in **APS1**, and the IRDAI Appointed Actuary Regulations.

Key Considerations - Professional aspects

- Current proposal conforms a breach of policyholder interest
- A fellow member of the profession has not acted with full honesty and integrity
- Formal complain can be lodged with IAI as per Actuaries (Procedure for Inquiry of Professional and Other Misconduct) Rules, 2008
- Act at the “earliest-possible” circumstances

Key Considerations - Legal aspects

- Seek legal guidance on confidentiality obligations (Actuaries Act 2006)
 - Current proposal - confidential business decision by company
 - Reporting on CMO - does it violates confidentiality?

Final Remarks

- Let history remind us: ethical shortcuts today become tomorrow's costly scandals.
- Policyholder protection, transparency, and informed consent must remain non-negotiable.
- Show moral courage by clearly articulating ethical concerns, documenting them, and challenging ideas, not people.
- Communicate with clarity, ethics, and purpose—tailored to your audience, with actionable advice.
- By speaking up and innovating ethically, actuaries safeguard trust and ensure sustainable growth.

Thank you for your attention!